LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

B.Com.DEGREE EXAMINATION –**COMMERCE** [*******]

SIXTH SEMESTER – **APRIL 2018**

CO 6608– FINANCIAL MANAGEMENT

Date: 17-04-2018 Dept. No. Max. : 100 Marks
Time: 09:00-12:00

PART A

ANSWER ALL THE QUESTIONS (10 X 2= 20 MARKS)

1. What is financial management?
2. Classify the pattern of capital structure.
3. Why is Operating leverage exiting?
4. Illustrate Indifference point
5. Expand the term 'CAPM'.
6. What is the meaning of WACC?
7. Give formula of redeemable Cost of debt.
8. Akash ltd offers for public subscription equity shares of Rs.10 each at a premium of 10%. The company pays an underwriting commission of 5% on the issue price. The equity shareholders expect a dividend of 15%.
   (a) Calculate the cost of capital
   (b) Calculate the cost of equity capital, if the market price of the share is Rs.20.
9. A projects cost Rs. 1, 00,000and yields annual cash inflow of Rs 20,000 for 7 years Calculate pay back period.
10. Find out the economic order quantity from the following particulars:
    Annual usage Rs. 1,20,000
    Cost of placing and receiving one order: Rs. 60
    Annual carrying cost = 10% of inventory value

PART B

ANSWER ANY FOUR QUESTIONS (4 X 10 = 40 MARKS)

11. What are the functions of a finance manager?
12. a. Explain the various stages in capital budgeting process
    b. Discuss the importance of Capital Budgeting.
13. Discuss the various factors affecting the requirement of Working Capital Management.
14. Komal Ltd wants to raise Rs. 2,50,000 as additional capital. It has two mutually exclusive alternative financial plans. The current EBIT id Rs. 8,50,000 which is likely to remain unchanged. The relevant information is:

    Present capital structure: 1,50,000 equity shares of Rs. 10 each and 10% Bonds of Rs.10,00,000

Tax rate : 50%

Current EBIT: Rs. 8,50,000

Current EPS : Rs.2.50

Current market price :Rs. 25 per share

Financial Plan I : 10,000 Equity Shares at Rs. 25 per share

Financial Plan II : 12 % Debentures of Rs.2,50,000

You are required to calculate: (a) Earnings per share (b) Indifference point between Plan I and Plan II.

15. Calculate the degree of (a) Operating Leverage, (b) Financial Leverage, (c) Combined Leverage, from the following information and interpret the results.

Details	Company - P	Company - Q	Company - R
Output in units	3,00,000	75,000	5,00,000
Fixed Cost Rs.	3,50,000	7,00,000	75,000
Variable cost per unit Rs	1.00	7.50	0.10
Interest Expenses Rs	25,000	40,000	Nil
Selling Price per unit Rs	3.00	25.00	.50

16. `From the following particulars. Calculate (a) Net operating cycle, (b) Number of operating cycles in a year, (c) The amount of Working Capital.

Details	
Period Covered	360 days
Average period allowed by suppliers	30 days
Average period allowed to debtors	45 days
Raw material consumed during the year	Rs.6,00,000
Average stock of raw material	Rs.50,000
Work in progress inventory	Rs.5,00,000
Average Work in progress inventory	Rs.30,000
Finished goods inventory	Rs.8,00,000
Average finished goods stock held	Rs.40,000
Total cost of sales	Rs.8,40,000

17. A company has to choose any one of the following two mutually exclusive projects.

Investment required for each project is Rs.15,000 and both have to be depreciated on straight line method assuming that income tax is @ 50%.

Year	Project - A	Project - B
1	4,200	4,200
2	4,800	4,500
3	7,000	4,000
4	7,000	5,000
5	2,000	10,000

Calculate Payback Period.

PART C

ANSWER ANY TWO QUESTIONS (2 X 20 =40 MARKS)

18. Discuss briefly the significance and objectives of financial Management.
19. X Co desires to purchase a business and has consulted you and one point on which you are asked to advise them is the average amount of working capital which will be required in the first year's working.

You are given the following estimates and are instructed to add 10% to your computed figures to allow for contingencies.

		Figure for the year
(i)	Average amount locked up in stocks:	Rs.
	Stock of finished goods	5,000
	Stock of stores and material	8,000
(ii)	Average credit given :	
	Inland sales - 6 weeks	3,12,000
	Export sales – 1 ½ weeks	78,000
(iii)	Lag in payment of wages and other outgoings:	
	Wages - 1 ½ weeks	2,60,000
	Stores materials etc. – 1 ½ months	48,000
	Rent, royalties etc. – 6 months	10,000
	Clerical staff salary – ½ month	62,400
	Manager salary - ½ month	4,800
	Miscellaneous expenses - 1 ½ months	48,000
(iv)	Payment in advance:	
	Sundry expenses (paid quarterly in advance)	8,000
(v)	Undrawn profits on the average throughout the year	11,000

Set up your calculation for the average amount of working capital required.

20. A limited is considering investing in a project requiring a capital outlay of Rs.2,00,000. Forecast of annual income after depreciation but before tax is as follows"

Year	PBT in Rs.	PVIF at 10%
1	1,00,000	.909
2	1,00,000	.826
3	80,000	.751
4	80,000	.683
5	40,000	.621

Depreciation may be taken as 20% on original cost and taxation at 50% of net income. Calculate:

(a) Pay-back period

(b) Discounted pay-back period

(c) Rate of return on original investment

(d) Net present value

(e) Profitability index method

21. Neeraon Moody Ltd., has an all equity capital structure consisting of 5000 equity shares of 100 each. The management plans to raise Rs.3,00,000 for expansion programme. The expected EBIT after expansion is Rs. 1,50,000. The company has the following four options:

1) To issue 3000 equity shares of Rs. 100 each
2) To issue 1000 equity shares Rs.100 each and issue 9% preference shares for Rs.2,00,000
3) To borrow a bank loan for Rs. 3,00,000 at 10% interest p.a..
4) To issue 1000 equity shares of Rs.100 each and for the balance of Rs.2,00,000 a bank loan is raised at 10% p.a.

Suggest the best alternative with the justifications assuming that income Tax of 50%.

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